

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Portland	County Ionia
Audit Date 6/30/05	Opinion Date 8/26/05	Date Accountant Report Submitted to State: 12/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Abraham & Gaffney			
Street Address 3511 Coolidge, Suite 100		City East Lansing	State MI
		ZIP 48823	
Accountant Signature <i>Abraham & Gaffney, P.C.</i> <i>Adam M. Stone</i>			Date 12/21/05

**City of Portland
Ionia County, Michigan**

FINANCIAL STATEMENTS

June 30, 2005

City of Portland

Ionia County, Michigan

June 30, 2005

CITY COUNCIL AND ADMINISTRATION

Mr. James Barnes	Mayor
Mr. Patrick Duff	Mayor Pro-Tem
Mr. Eric Alderman	Council member
Mr. Roger Habegger	Council member
Ms. Kathy Parsons	Council member
Mr. Thomas Dempsey	City Manager
Ms. Yvonne Bailey	City Clerk
Ms. Brenda Schrauben	Finance Director/ Treasurer
Ms. Lisa Pung	City Assessor
Mr. William Davis	City Attorney

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June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Portland, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Portland, Michigan as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2005 on our consideration of the City of Portland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2005

City of Portland

Management's Discussion and Analysis

The following is a discussion and analysis of City of Portland's (the City's) financial performance and position, providing an overview of the activities for the year ended June 30, 2005. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$21,078,587 (excluding component units).
- Governmental activities net assets were \$9,965,244.
- Business-type activity net assets were \$11,113,343.
- Component Unit net assets were \$1,067,835.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,362,141 with \$334,097 being reserved, designated, or otherwise earmarked for specific purposes (street R.O.W., cemetery perpetual care, debt service).
- The General Fund realized \$21,687 more in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations also expended \$343,061 less than appropriated.
- Overall, the General Fund balance increased by \$189,352 to \$465,939 with \$150,000 being designated by management as local match for a grant project to complete the river trail loop and the remaining \$315,939 being undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The primary government had one (1) new debt issue for the fiscal year in the form of a Drinking Water Revolving Fund Loan in the amount of \$670,450.
- The total long-term debt for the primary government was \$2,343,333, an increase of \$427,231 from the prior year.
- The City remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government were \$3,747,615 and included a new water tower, additions to the water and sewer systems, improvements to Canal, Donna, and Bethel Streets, a new truck for the water department, new copiers at City Hall and the Emergency Services Building, new (refurbished) grass rigs for the fire department, a Gator for parks and cemeteries, and a new electric panel at Powers Park.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question, is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

City of Portland

Management's Discussion and Analysis

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2004/2005. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, health and welfare (ambulance), economic development, city improvements, street improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Electric Light and Power System, the Sewage Disposal System and Water System Fund and are examples of these activities.
- **Discretely Presented Component Units** - Discretely Presented Component units are legally separate organizations for which the City Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. One organization is included as a discretely presented component unit: the Downtown Development Authority.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

Fund Financial Statements (Reporting the City's Major Funds)

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

City of Portland

Management's Discussion and Analysis

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Portland include the General Fund, the City Income Tax Fund, the Local Street Fund, the Electric Light and Power System Fund, the Sewage Disposal System Fund and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. income tax, major street, local street, ambulance and recreation funds), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the DNR grant fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest e.g. the special assessments fund).
- **Proprietary Funds** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer Disposal System Fund. *Internal Service funds* report activities that provide supplies or service to the City's other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Net Assets on page 17. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 18 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

City of Portland
Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Portland combined net assets were \$21,078,587 at the end of this fiscal year's operations. The net assets of the governmental activities were \$9,965,244; the business type activities were \$11,113,343.

Net Assets as of June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Capital and Other Assets	\$ 2,156,794	\$ 2,312,515	\$ 4,389,493	\$ 3,626,293	\$ 6,546,287	\$ 5,938,808
Capital Assets	8,420,065	7,878,259	9,338,441	8,486,645	17,758,506	16,364,904
Total Assets	\$ 10,576,859	\$ 10,190,774	\$ 13,727,934	\$ 12,112,938	\$ 24,304,793	\$ 22,303,712
Current Liabilities	\$ 478,623	\$ 336,126	\$ 486,089	\$ 475,023	\$ 964,712	\$ 811,149
Noncurrent Liabilities	132,992	151,177	2,128,502	1,628,426	2,261,494	1,779,603
Total Liabilities	\$ 611,615	\$ 487,303	\$ 2,614,591	\$ 2,103,449	\$ 3,226,206	\$ 2,590,752
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 8,280,624	\$ 7,674,631	\$ 7,193,569	\$ 6,822,223	\$ 15,474,193	\$ 14,496,854
Restricted	845,651	1,259,194	238,994	230,117	1,084,645	1,489,311
Unrestricted	838,969	769,646	3,680,780	2,957,149	4,519,749	3,726,795
Total Net Assets	\$ 9,965,244	\$ 9,703,471	\$ 11,113,343	\$ 10,009,489	\$ 21,078,587	\$ 19,712,960

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending June 30, 2005 and 2004

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues						
Charges for Services	\$ 1,210,825	\$ 933,541	\$ 4,255,363	\$ 4,218,886	\$ 5,466,188	\$ 5,152,427
Grants and Contributions	346,849	736,470	181,082	185,120	527,931	921,590
General Revenues						
Property Taxes	945,303	918,717	-	-	945,303	918,717
State Shared Revenue	456,521	477,606	-	-	456,521	477,606
City Income Taxes	684,603	657,996	-	-	684,603	657,996
Investment Earnings	49,804	27,583	32,731	15,317	82,535	42,900
Miscellaneous	41,104	29,040	40,241	60,417	81,345	89,457
Transfers	(194,488)	75,023	194,488	(75,023)	-0-	-0-
Total Revenues	3,540,521	3,855,976	4,703,905	4,404,717	8,244,426	8,260,693

City of Portland
Management's Discussion and Analysis

Changes in Net Assets for the Fiscal Year Ending June 30, 2005 and 2004 - continued

	Governmental Activities		Business-type Activities		Total	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Expenses						
General Government	859,071	982,252	-	-	859,071	982,252
Public Safety	842,049	950,351	-	-	842,049	950,351
Public Works	632,726	141,137	-	-	632,726	141,137
Health and Welfare	427,283	403,385	-	-	427,283	403,385
Community and Economic Develop.	272,547	18,620	-	-	272,547	18,620
Recreation and Cultural	286,341	300,828	-	-	286,341	300,828
Other	<u>20,193</u>	<u>3,309</u>	<u>3,600,051</u>	<u>3,652,775</u>	<u>3,620,244</u>	<u>3,656,084</u>
Total Expenses	<u>3,340,210</u>	<u>2,799,882</u>	<u>3,600,051</u>	<u>3,652,775</u>	<u>6,940,261</u>	<u>6,452,657</u>
Increase in Net Assets	200,311	1,056,094	1,103,854	751,942	1,304,165	1,808,036
Net Assets - Beginning	9,703,471	8,647,377	10,009,489	9,257,547	19,712,960	17,904,924
Prior Period Adjustment	<u>61,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,462</u>	<u>-0-</u>
Net Assets - Ending	<u>\$ 9,965,244</u>	<u>\$ 9,703,471</u>	<u>\$ 11,113,343</u>	<u>\$ 10,009,489</u>	<u>\$ 21,078,587</u>	<u>\$ 19,712,960</u>

Governmental Activities:

The result of 2004/2005 governmental activity was an increase of \$261,773 in net assets to \$9,965,244. Of the total governmental activities' net assets, \$8,280,624 is invested in capital assets less related debt, \$845,651 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$838,969 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were charges for services at 34.2%, property taxes at 26.7%, and income taxes at 19.3%. Charges for services, which reimburse the City for specific activities, are the largest source of governmental activity revenue. Examples include items such as ambulance fees, township fire fees, recreation fees and contributions, administrative charges, permits and motor pool equipment rental. The City levied a property tax millage for the year ended June 30, 2005, for general government operations at 13.8408 mills, which is not assigned to any particular activity. Grants and contributions include capital grants (e.g. DNR grant and FEMA grant) and State operating assistance (e.g. State shared revenues).

Expenses:

General government is the largest governmental activity, expending approximately 26% of the governmental activities total and includes general government departments (e.g. council, community promotions, city manager, elections, general administration, assessor, city hall maintenance, and cemetery operations). Public Safety is the second largest area, expending approximately 25% of the governmental activities total on law enforcement, fire protection and code enforcement. Public Works expended approximately 19% of the governmental activities total and would be higher if capital outlay charged to this function in the funds were not shown as capital assets in the government-wide financial statements.

City of Portland

Management's Discussion and Analysis

Business-type Activities:

Net assets in business-type activities increased by \$1,103,854 during fiscal year 2004/2005. Of the business-type activities' net assets, \$7,193,569 is invested in capital assets net of related debt, \$238,994 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$3,680,780 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NON MAJOR FUNDS

As the City completed 2004/2005, its governmental funds reported *combined* fund balances of \$1,362,141. This is a net decrease of \$306,413. The net changes are summarized in the following chart:

	General Fund	City Income Tax	Local Street	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance 06/30/04	\$ 276,587	\$ 819,292	\$ 79,702	\$ 431,511	\$ 1,607,092
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ 61,462	\$ 61,642
Fund Balance 06/30/05	\$ 465,939	\$ 293,244	\$ 147,359	\$ 455,599	\$ 1,362,141
Net Change	\$ 189,352	\$ (526,048)	\$ 67,657	\$ (37,374)	\$ (306,413)

General Fund:

The General Fund is the chief operating fund of the City. Unless otherwise required by statute, contractual agreement or Board policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2005, the General Fund reported a fund balance of \$465,939. This amount is an increase of \$169,352 from the fund balance of \$296,587 reported as of June 30, 2004. The 2004/2005 original budget had called for a \$73,416 use of fund balance.

The General Fund 2004/2005 revenues exceeded 2004/2005 expenditures by \$96,615 due in large part to curtailed spending on account of rumored cuts to state shared revenues which were less drastic than anticipated. It should be noted that the General Fund also supports the operations of other funds including the Recreation Fund, which received \$10,000 in support from the General Fund.

General Fund Budgetary Highlights:

The City of Portland's budget is a dynamic document. Although adopted in May (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$2,084,494, \$21,687 above the final amended budget. There were some wide variations in individual revenue accounts reflecting the tightening national and local economy.

The \$21,687 excess in budgeted General Fund Revenue was due to increased rentals, increased charges for services, higher than anticipated revenue from fines and forfeits and changes in how retiree's contributions toward health insurance are recorded. These factors helped General Fund revenue exceed budgeted amount despite the fact that State sales tax payments were \$17,479 less than budgeted.

The City's expenditure budget was increased by \$121,747 (5% above the original budget) during 2004/2005. The increase can be attributed to increases in General Government of \$36,309, Public Safety of \$59,225, Ambulance of \$14,273, Park and Recreation of \$8,140, and Economic Development of \$3,300.

City of Portland

Management's Discussion and Analysis

Actual City expenditures for 2004/2005 were \$343,061 below the amended budget and \$221,314 below the original budget. The additions to the original budget were offset by reduced spending and deferral of some planned capital purchases because of financial uncertainty associated with State cuts to revenue sharing and the desire to increase fund balance for local match on future grant projects. The City also experienced some savings because certain expenses came in lower than anticipated and personnel levels were below the amounts budgets (e.g. police) or volunteers were available to reduce so that less money was spent on seasonal part-timers (e.g. GM volunteers).

Overall general fund expenditures were down due to several reasons including:

- \$32,518 less than planned expenditures in the Parks and Recreation Department.
- \$52,988 less than planned expenditures in the Police Department.
- \$35,604 less than planned expenditures in the Fire Department.
- \$17,975 less than planned expenditures in the Code Enforcement Department.
- \$34,384 less than planned expenditures in the Cemetery Department.
- \$61,116 less than planned expenditures for General Administration.
- \$5,691 less than planned expenditures for City Hall Building and Grounds.
- \$4,672 less than planned expenditures for Elections.
- \$5,423 less than planned expenditures for Assessing.
- \$67,925 less than planned expenditures for Community Promotions.
- \$3,005 less than planned expenditures for Council Boards and Commissions.

The only general fund department that expended more than planned expenditures (\$117) was the Economic Development.

City Income Tax Fund

As of June 30, 2005, the City Income Tax Fund reported a fund balance of \$293,244, a decrease of \$228,410 from the prior year. The total fund balance is undesignated/unreserved. While the City finance statements show these funds as undesignated, the City has used the income tax funds exclusively for the improvement of streets, sidewalks, curb, gutter, street lighting, parking areas, associated utilities and their appurtenances.

Local Street Fund

As of June 30, 2005, the Local Street Fund reported a fund balance \$147,359, which is an increase of \$67,657 from the prior year.

\$17,389 of the fund balance is attributable to revenues received from METRO Authority and is reserved for right-of-way maintenance and/or improvements. The remaining balance of \$129,970 is undesignated/unreserved.

Business-type Activities Funds

As the City completed 2004/2005, its business-type activities funds reported *combined* net assets of \$11,113,343. This is a net increase of \$1,103,854. The net changes are summarized in the following chart.

	Electric Light and Power System Fund	Sewage Disposal System Fund	Water System Fund	Nonmajor Enterprise Fund	Total
Net Assets 06/30/04	\$ 6,353,673	\$ 1,291,205	\$ 2,361,611	\$ -	\$ 10,009,489
Net Assets 06/30/05	\$ 6,694,318	\$ 1,463,850	\$ 2,955,105	\$ 70	\$ 11,113,343
Net Change	\$ 340,645	\$ 172,645	\$ 590,494	\$ 70	\$ 1,103,854

City of Portland

Management's Discussion and Analysis

Electric Light and Power System Fund:

As of June 30, 2005, the Electric Light and Power System Fund reported net assets of \$6,694,318, an increase of \$340,645 from the prior year. Of the entire net assets, \$70,000 is reported as being reserved due to the requirements of Section 12.9 of the City Charter, \$127,838 is restricted for debt service and \$1,985,638 is unrestricted.

Sewage Disposal System Fund:

As of June 30, 2005, the Sewer Fund reported net assets of \$1,463,850, an increase of \$172,645 from the prior year. Of the entire net assets, \$948,197 is invested in capital assets, net of related debt, \$41,156 is restricted for debt service, and \$474,497 is unrestricted.

Water System Fund:

As of June 30, 2005, the Water System Fund reported net assets of \$2,955,105, an increase of \$590,494 from the prior year. Of the entire net assets, \$1,734,530 is invested in capital assets, net of related debt and \$1,220,575 is unrestricted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2004/2005, the City had invested \$17,758,506, and \$2,818,280 for the component units, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note H of the Financial Statements. Net Book value of capital assets at June 30, 2005 was as follows:

	Governmental Activities	Business- type Activities	Component Unit DDA	Total
Land	\$ 1,075,920	\$ -	\$ -	\$ 1,075,920
Construction in progress	-	-	335,965	335,965
Buildings, net	299,840	-	2,340,900	2,640,740
Vehicles and equipment, net	724,838	-	-	724,838
Electric system, net	-	5,105,842	-	5,105,842
Sewer system, net	-	1,153,197	-	1,153,197
Water system, net	-	3,079,402	-	3,079,402
Infrastructure Streets & Bridges, net	6,319,467	-	141,415	6,460,882
Capital assets, net	\$ 8,420,065	\$ 9,338,441	\$ 2,818,280	\$ 20,576,786

Long-term Debt - As of June 30, 2005, the City had \$2,343,333 in loans outstanding for the primary government. This level of net obligation is \$427,231 more than the obligation recorded as of June 30, 2004, principally due to the 2004 DWRF bonds.

City of Portland

Management's Discussion and Analysis

Outstanding Debt as of June 30, 2005:

Primary Government	<u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>
Governmental Activities				
Special Assessment Bonds	\$ 70,000	\$ -	\$ 5,000	\$ 65,000
Capital Leases Payable	40,580	-	15,751	24,829
Notes Payable	93,048	-	43,436	49,612
Compensated Absences	48,052	10,968	-	59,020
Business-type Activities				
Elec. 1993 Rev. Bonds	105,000	-	105,000	-0-
Elec. 1994 Rev. Bonds	510,000	-	10,000	500,000
2002 Note Payable	155,000	-	60,000	95,000
Sewer 1995 Rev. Bonds	220,000	-	15,000	205,000
Water 2004 DWRP Bonds	<u>674,422</u>	<u>670,450</u>	<u>-</u>	<u>1,344,872</u>
Total Primary Government	1,916,102	681,418	254,187	2,343,333
Component Unit				
General Obligation Bonds	<u>1,990,000</u>	<u>-</u>	<u>95,000</u>	<u>1,895,000</u>
Total Reporting Entity	<u>\$ 3,906,102</u>	<u>\$ 681,418</u>	<u>\$ 349,187</u>	<u>\$ 4,238,333</u>

A more detailed discussion of the City's long-term debt obligations is presented in Note I to the financial statements.

CITY OF PORTLAND GOVERNMENT ECONOMIC OUTLOOK:

- State revenue sharing has declined nearly \$108,479 over the past four years, and may face additional cuts due to state budget problems.
- Project and construction costs continue to rise faster than the rate of inflation.
- Investment earnings remained at historically low levels due to low market interest rates.
- Health and dental insurance premiums continue to rise much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Fuel and other utility costs are rising faster than the rate of inflation.
- Hazard/Liability Insurance costs are rising faster than the rate of inflation.

These factors were considered in adopting the Budget for 2005/2006. A usage of \$73,416 of the City's fund balance was included to balance the General Fund Budget, although it is estimated that the deficit will be less as the taxable value of property in the City increased by \$4,908,308 (approximately 6.27%) due to new construction. Approximately 80% of the new growth is residential with five new homes and numerous condominiums (Rivers Edge, Cherry Hill, and Cherry Creek Estates all added condominium units).

The increase in tax base and continued efforts to monitor spending and increase efficiencies make prospects for balancing the City's budget for 2005/2006 excellent.

CONTACTING THE CITY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Portland's Treasurer's Office at (517) 647-2933.

BASIC FINANCIAL STATEMENTS

City of Portland

STATEMENT OF NET ASSETS

June 30, 2005

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		(DDA)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,725,152	\$ 2,815,105	\$ 4,540,257	\$ 176,874
Receivables	244,841	594,879	839,720	-
Due from other governmental units	72,992	227,823	300,815	-
Internal balances	113,809	(113,809)	-0-	-
Inventories	-	348,799	348,799	-
Total current assets	2,156,794	3,872,797	6,029,591	176,874
Noncurrent assets				
Cash and cash equivalents - restricted	-	516,696	516,696	5,025
Capital assets not being depreciated	1,075,920	286,514	1,362,434	335,965
Capital assets being depreciated, net	7,344,145	9,051,927	16,396,072	2,482,315
Total noncurrent assets	8,420,065	9,855,137	18,275,202	2,823,305
TOTAL ASSETS	10,576,859	13,727,934	24,304,793	3,000,179
LIABILITIES				
Current liabilities				
Accounts payable	324,715	227,206	551,921	525
Accrued liabilities	88,439	76,877	165,316	21,819
Due to other governmental units	-	-	-0-	15,000
Customer deposits	-	7,006	7,006	-
Current portion of compensated absences	11,804	-	11,804	-
Current portion of long-term debt	53,665	175,000	228,665	125,000
Total current liabilities	478,623	486,089	964,712	162,344
Noncurrent liabilities				
Customer deposits payable from restricted assets	-	158,630	158,630	-
Noncurrent portion of compensated absences	47,216	-	47,216	-
Noncurrent portion of long-term debt	85,776	1,969,872	2,055,648	1,770,000
Total noncurrent liabilities	132,992	2,128,502	2,261,494	1,770,000
TOTAL LIABILITIES	611,615	2,614,591	3,226,206	1,932,344
NET ASSETS				
Invested in capital assets, net of related debt	8,280,624	7,193,569	15,474,193	923,280
Restricted for				
Utilities	-	70,000	70,000	-
Capital improvement	4,193	-	4,193	-
Debt service	26,447	168,994	195,441	-
Other purposes	815,011	-	815,011	-
Unrestricted	838,969	3,680,780	4,519,749	144,555
TOTAL NET ASSETS	\$ 9,965,244	\$ 11,113,343	\$ 21,078,587	\$ 1,067,835

See accompanying notes to financial statements.

City of Portland

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets				Component Units
	Primary Government			Total	
	Governmental Activities	Business-type Activities			
Program Revenues					
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government					
Governmental activities					
General government	\$ 859,071	\$ 467,114	\$ 3,940	\$ -	\$ (388,017)
Public safety	842,049	125,499	8,035	-	(708,515)
Public works	632,726	-	324,395	1,880	(306,451)
Health and welfare	427,283	305,751	-	-	(121,532)
Community and economic development	272,547	218,878	-	-	(53,669)
Recreation and cultural	286,341	93,583	8,599	-	(184,159)
Interest on long-term debt	20,193	-	-	-	(20,193)
Total governmental activities	3,340,210	1,210,825	344,969	1,880	(1,782,536)
Business-type activities					
Electric, Light, and Power System	2,674,072	2,971,884	-	34,772	332,584
Sewage Disposal System	497,533	564,382	-	40,414	107,263
Water System	397,933	688,514	-	105,896	396,477
Refuse	30,513	30,583	-	-	70
Total business-type activities	3,600,051	4,255,363	-0-	181,082	836,394
Total primary government	\$ 6,940,261	\$ 5,466,188	\$ 344,969	\$ 182,962	(946,142)
Component unit					
Downtown Development Authority	\$ 82,881	\$ -0-	\$ -0-	\$ -0-	(82,881)
General revenues					
	Property taxes			945,303	247,164
	State shared revenue			456,521	-
	City income taxes			684,603	-
	Investment earnings			32,731	1,956
	Miscellaneous			49,804	18,508
	Transfers			41,104	-
				(194,488)	-0-
Total general revenues and transfers					
				1,982,847	267,628
Change in net assets					
				200,311	184,747
Net assets, beginning of the year					
				9,703,471	883,088
Prior period adjustment					
				61,462	-
Net assets, end of the year					
				\$ 9,965,244	\$ 1,067,835
				\$ 11,113,343	\$ 21,078,587

See accompanying notes to financial statements.

City of Portland

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

	General	City Income Tax	Local Street	Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 454,631	\$ 268,173	\$ 302,199	\$ 449,447
Receivables				
Taxes	1,133	-	-	-
Accounts	639	138,607	559	7,398
Special assessments	-	77,088	-	18,552
Due from other governmental units				
State	-	-	19,790	38,202
Local	15,000	-	-	-
Due from other funds	131,015	-	89,273	23,437
TOTAL ASSETS	<u>\$ 602,418</u>	<u>\$ 483,868</u>	<u>\$ 411,821</u>	<u>\$ 537,036</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 26,102	\$ 377	\$ 258,006	\$ 31,272
Accrued liabilities	62,377	1,195	2,628	14,785
Due to other funds	-	111,964	3,828	14,124
Deferred revenue	-	77,088	-	18,552
Advances from other funds	48,000	-	-	2,704
TOTAL LIABILITIES	136,479	190,624	264,462	81,437
FUND BALANCES				
Reserved for				
Streets - Right of Way	-	-	17,389	11,118
Perpetual care	-	-	-	127,994
Debt service	-	-	-	27,596
Unreserved				
Designated for capital projects	150,000	-	-	-
Undesignated, reported in				
General Fund	315,939	-	-	-
Capital Project Funds	-	-	-	4,193
Special Revenue Funds	-	293,244	129,970	284,698
TOTAL FUND BALANCES	<u>465,939</u>	<u>293,244</u>	<u>147,359</u>	<u>455,599</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 602,418</u>	<u>\$ 483,868</u>	<u>\$ 411,821</u>	<u>\$ 537,036</u>

See accompanying notes to financial statements.

Total
Governmental
Funds

\$ 1,474,450

1,133
147,203
95,640

57,992
15,000
243,725

\$ 2,035,143

\$ 315,757
80,985
129,916
95,640
50,704

673,002

28,507
127,994
27,596

150,000

315,939
4,193
707,912

1,362,141

\$ 2,035,143

City of Portland

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance - governmental funds \$ 1,362,141

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 11,829,091	
Accumulated depreciation is	<u>(3,409,026)</u>	
Capital assets, net		8,420,065

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	671,483	
Long-term obligations of Internal Service Funds included in total long-term liabilities below	49,612	
Accrued interest payable of Internal Service Funds included in total long-term liabilities below	824	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(434,911)</u>	287,008

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		95,640
------------------	--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Bonds, loans, and leases payable	139,441	
Accrued interest payable	1,149	
Compensated absences	<u>59,020</u>	
		<u>(199,610)</u>

Net assets of governmental activities \$ 9,965,244

See accompanying notes to financial statements.

City of Portland

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	General	City Income Tax	Local Street	Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 877,172	\$ 677,280	\$ 68,313	\$ -
Licenses and permits	21,406	-	-	-
Intergovernmental	460,627	-	85,466	249,978
Charges for services	457,141	-	-	618,212
Fines and forfeits	18,305	7,323	-	-
Interest and rents	34,095	6,746	477	3,537
Other	113,011	21,122	2,104	22,784
TOTAL REVENUES	1,981,757	712,471	156,360	894,511
EXPENDITURES				
General government	705,660	114,249	-	1,384
Public safety	846,063	-	-	-
Public works	38,341	-	937,603	201,262
Health and welfare	106,984	-	-	320,299
Community and economic development	18,917	-	-	253,630
Recreation and cultural	152,869	-	-	133,675
Debt service	16,308	-	-	9,780
TOTAL EXPENDITURES	1,885,142	114,249	937,603	920,030
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	96,615	598,222	(781,243)	(25,519)
OTHER FINANCING SOURCES (USES)				
Transfers in	102,737	2,088	848,900	10,000
Transfers out	(10,000)	(1,126,358)	-	(21,855)
TOTAL OTHER FINANCING SOURCES (USES)	92,737	(1,124,270)	848,900	(11,855)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	189,352	(526,048)	67,657	(37,374)
Fund balances, beginning of year	276,587	819,292	79,702	431,511
Prior period adjustment	-	-	-	61,462
Fund balances, end of year	\$ 465,939	\$ 293,244	\$ 147,359	\$ 455,599

See accompanying notes to financial statements.

Total
Governmental
Funds

\$ 1,622,765
21,406
796,071
1,075,353
25,628
44,855
159,021

3,745,099

821,293
846,063
1,177,206
427,283
272,547
286,544
26,088

3,857,024

(111,925)

963,725
(1,158,213)

(194,488)

(306,413)

1,607,092

61,462

\$ 1,362,141

City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Net change in fund balances - total governmental funds \$ (306,413)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 973,907	
Depreciation expense	<u>(432,101)</u>	
Excess of capital outlay over depreciation expense		541,806

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds	(109,013)	
Bond principal retirements of Internal Service Funds included in the total below	(43,436)	
Decrease in accrued interest payable of Internal Service Funds included in the total below	(29)	
Capital outlay of Internal Service Funds included in the total above	(35,089)	
Depreciation expense of Internal Service Funds included in the total above	<u>108,432</u>	
		(79,135)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in deferred revenue	(10,090)
--------------------------------	----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bonds, loans, and capital lease principal retirements	64,187
---	--------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	924	
(Increase) in accrued compensated absences	<u>(10,968)</u>	
		(10,044)

Change in net assets of governmental activities \$ 200,311

See accompanying notes to financial statements.

City of Portland
Proprietary Funds
STATEMENT OF NET ASSETS
June 30, 2005

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,336,888	\$ 309,326	\$ 1,168,701
Accounts receivable	419,438	85,970	89,471
Due from other governmental units			
State	35,726	21,994	170,103
Inventories	340,501	-	8,298
Total current assets	2,132,553	417,290	1,436,573
Noncurrent assets			
Cash and cash equivalents - restricted	335,385	161,295	20,016
Advances to other funds	-	-	-
Capital assets not being depreciated	13,800	181,623	91,091
Capital assets being depreciated, net	5,092,042	971,574	2,988,311
Total noncurrent assets	5,441,227	1,314,492	3,099,418
TOTAL ASSETS	7,573,780	1,731,782	4,535,991
LIABILITIES			
Current liabilities			
Accounts payable	116,832	25,723	84,531
Accrued liabilities	45,181	16,944	14,752
Due to other funds	-	-	113,809
Customer deposits	4,099	-	2,907
Current portion of long-term debt	160,000	15,000	-
Total current liabilities	326,112	57,667	215,999
Noncurrent liabilities			
Customer deposits payable from restricted assets	118,350	20,265	20,015
Bonds and notes payable	435,000	190,000	1,344,872
Total noncurrent liabilities	553,350	210,265	1,364,887
TOTAL LIABILITIES	879,462	267,932	1,580,886
NET ASSETS			
Invested in capital assets, net of related debt	4,510,842	948,197	1,734,530
Restricted for utilities	70,000	-	-
Restricted for debt service	127,838	41,156	-
Unrestricted	1,985,638	474,497	1,220,575
TOTAL NET ASSETS	\$ 6,694,318	\$ 1,463,850	\$ 2,955,105

See accompanying notes to financial statements.

Activities Nonmajor Enterprise Fund (Refuse)	Total	Governmental Activities Internal Service Fund
\$ 190	\$ 2,815,105	\$ 250,702
-	594,879	865
-	227,823	-
-	348,799	-
190	3,986,606	251,567
-	516,696	-
-	-0-	50,704
-	286,514	-
-	9,051,927	434,911
-0-	9,855,137	485,615
190	13,841,743	737,182
120	227,206	8,958
-	76,877	7,129
-	113,809	-
-	7,006	-
-	175,000	32,636
120	599,898	48,723
-	158,630	-
-	1,969,872	16,976
-0-	2,128,502	16,976
120	2,728,400	65,699
-	7,193,569	385,299
-	70,000	-
-	168,994	-
70	3,680,780	286,184
\$ 70	\$ 11,113,343	\$ 671,483

City of Portland

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2005

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
OPERATING REVENUES			
Charges for services			
User charges	\$ 2,971,884	\$ 544,882	\$ 678,114
Tap fees	-	19,500	10,400
Other	24,771	4,615	10,855
TOTAL OPERATING REVENUES	2,996,655	568,997	699,369
OPERATING EXPENSES			
Salaries and wages	301,874	146,091	128,603
Fringe benefits	108,051	64,375	39,850
Contractual services	48,473	165,380	12,915
Supplies	158,258	7,420	29,814
Heat, light, and power	1,695,327	-	19,783
Communications	3,374	2,513	3,526
Insurance and bonds	10,224	4,105	459
Repairs and maintenance	48,526	-	10,393
Administrative services	57,876	32,748	43,164
Building and equipment rental	11,404	4,228	11,442
Other	21,310	5,132	4,307
Depreciation	194,139	58,772	70,819
TOTAL OPERATING EXPENSES	2,658,836	490,764	375,075
OPERATING INCOME (LOSS)	337,819	78,233	324,294
NONOPERATING REVENUES (EXPENSES)			
Interest earned	18,260	4,320	10,151
Intergovernmental			
Federal/State	22,362	21,994	74,419
Local	12,410	18,420	31,477
Interest expense and fees	(15,236)	(6,769)	(22,858)
TOTAL NONOPERATING REVENUES (EXPENSES)	37,796	37,965	93,189
INCOME (LOSS) BEFORE TRANSFERS	375,615	116,198	417,483
TRANSFERS IN (OUT)			
Transfers in	-	80,447	197,011
Transfers out	(34,970)	(24,000)	(24,000)
TOTAL TRANSFERS IN (OUT)	(34,970)	56,447	173,011
CHANGE IN NET ASSETS	340,645	172,645	590,494
Net assets, beginning of year	6,353,673	1,291,205	2,364,611
Net assets, end of year	\$ 6,694,318	\$ 1,463,850	\$ 2,955,105
See accompanying notes to financial statements.			

Activities Nonmajor Enterprise Fund (Refuse)	Total	Governmental Activities Internal Service Fund
\$ 30,583	\$ 4,225,463	\$ 253,159
-	29,900	-
-	40,241	385
30,583	4,295,604	253,544
-	576,568	74,244
-	212,276	33,464
29,725	256,493	1,001
788	196,280	43,229
-	1,715,110	6,826
-	9,413	1,029
-	14,788	28,227
-	58,919	41,981
-	133,788	27,564
-	27,074	-
-	30,749	487
-	323,730	108,432
30,513	3,555,188	366,484
70	740,416	(112,940)
-	32,731	8,591
-	118,775	-
-	62,307	-
-	(44,863)	(4,664)
-0-	168,950	3,927
70	909,366	(109,013)
-	277,458	-
-	(82,970)	-
-0-	194,488	-0-
70	1,103,854	(109,013)
-	10,009,489	780,496
\$ 70	\$ 11,113,343	\$ 671,483

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 2,922,727	\$ 533,201	\$ 696,186
Cash paid to suppliers	(1,965,156)	(217,901)	(201,403)
Cash paid for employee benefits	(412,865)	(210,462)	(167,214)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	544,706	104,838	327,569
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	80,447	197,011
Transfers out	(34,970)	(24,000)	(24,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(34,970)	56,447	173,011
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of borrowing	(175,000)	(15,000)	-
Loan proceeds	-	-	670,450
Payments on advances	-	-	(26,548)
Capital grants	34,772	40,414	105,896
Purchase of capital assets	(143,800)	(170,620)	(861,106)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(284,028)	(145,206)	(111,308)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	18,260	4,320	10,151
Interest expense and fees	(15,236)	(6,769)	(22,858)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	3,024	(2,449)	(12,707)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	228,732	13,630	376,565
Cash and cash equivalents, beginning of year	1,443,541	456,991	812,152
Cash and cash equivalents, end of year	<u>\$ 1,672,273</u>	<u>\$ 470,621</u>	<u>\$ 1,188,717</u>

<u>Activities</u>		<u>Governmental</u>	
<u>Nonmajor</u>		<u>Activities</u>	
<u>Enterprise</u>		<u>Internal</u>	
<u>Fund (Refuse)</u>	<u>Total</u>	<u>Service</u>	
		<u>Fund</u>	
\$ 30,583	\$ 4,182,697	\$ 253,544	
(30,393)	(2,414,853)	(148,066)	
-	(790,541)	(108,578)	
190	977,303	(3,100)	
-	277,458	-	
-	(82,970)	-	
-0-	194,488	-0-	
-	(190,000)	(43,436)	
-	670,450	-	
-	(26,548)	47,548	
-	181,082	-	
-	(1,175,526)	(35,089)	
-0-	(540,542)	(30,977)	
-	32,731	8,591	
-	(44,863)	(4,664)	
-0-	(12,132)	3,927	
190	619,117	(30,150)	
-	2,712,684	280,852	
\$ 190	\$ 3,331,801	\$ 250,702	

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2005

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 337,819	\$ 78,233	\$ 324,294
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	194,139	58,772	70,819
(Increase) in accounts receivable	(57,511)	(12,234)	(4,083)
(Increase) in due to other funds	-	-	113,809
(Increase) in due from other governmental units	(22,363)	(21,994)	(113,159)
Increase (Decrease) in accounts payable	89,616	3,625	(65,600)
Increase (Decrease) in accrued liabilities	(2,940)	4	1,239
Increase (Decrease) in customer deposits	5,946	(1,568)	250
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 \$ 544,706	 \$ 104,838	 \$ 327,569

See accompanying notes to financial statements.

Activities		Governmental	
Nonmajor		Internal	
Enterprise		Service	
Fund (Refuse)	Total	Fund	
\$ 70	\$ 740,416	\$ (112,940)	
-	323,730	108,432	
-	(73,828)	-	
-	113,809	-	
-	(157,516)	-	
120	27,761	2,278	
-	(1,697)	(870)	
-	4,628	-	
\$ 190	\$ 977,303	\$ (3,100)	

City of Portland

Fiduciary Fund

STATEMENT OF NET ASSETS

June 30, 2005

	Current Tax Collection
ASSETS	
Due from other governmental units	<u>\$ 37,746</u>
LIABILITIES	
Due to individuals and agencies	<u>\$ 37,746</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portland is located in Ionia County, Michigan and has a population of approximately 4,000. The City of Portland operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has five (5) City Council members who are elected at large for overlapping two (2) or four (4) year terms. The Council elects two (2) of its members to serve as Mayor and Mayor Pro-Tem. The Council appoints the City Manager, City Clerk, Finance Director/Treasurer, and Assessor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Portland (primary government) and its component unit. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Joint Venture

The City participates in the following activity which is considered to be a joint venture in relation to the City, due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Portland Area Municipal Authority - The City is a member of the Portland Area Municipal Authority (PAMA), which is a joint venture between the City of Portland and the Townships of Portland and Danby. The City appoints two (2) of the five (5) members of the governing board. PAMA is charged with the responsibility of acquiring, financing, equipping, and improving an emergency services building for use by the participating municipalities.

The constituent municipalities are responsible for their share of the costs incurred by PAMA according to the following percentages:

City of Portland	40%
Portland Township	40
Danby Township	20

The financial activities of PAMA are accounted for and reported separately from the participating units. Separate audited financial statements for the year ended December 31, 2004, are available at PAMA's administrative offices. As of December 31, 2004, PAMA had a fund balance of \$1,935.

3. Discretely Presented Component Unit

The component unit is reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for this entity or the nature and significance of the relationship between the entity and the City is such that exclusion of the entity would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component unit:

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Unit - continued

Downtown Development Authority - A majority of the members of the governing board of the Downtown Development Authority are appointed by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The City Income Tax Fund is used to account for the revenue from income tax collection. The City income tax was approved by voters for the purpose of funding street improvements.
- c. The Local Street Fund is used to account for financial resources that are used for repairs and maintenance of the City's streets.
- d. The Electric Light and Power System Fund is used to account for the operations required to provide electric services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

- e. The Sewage Disposal System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. On the council meeting date nearest to the third Monday in April, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second regular council meeting in May, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Fund; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and accounts receivable for charges for services provided to local governmental units.

10. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Property Tax

The City of Portland bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Portland on July 1 and December 1 and are payable without penalty through September 30 and February 14, respectively. The July 1 levy is composed of the City's millage, assessments, and school taxes. The December 1 levy is composed of county and school taxes. All real property taxes not paid to the City by March 1 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to 15 mills (\$15 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2005, the City levied 13.8408 mills per \$1,000 of taxable valuation for general governmental services, which includes 1.000 mills for local streets. The total taxable value for the 2004 levy for property within the City was \$78,235,659.

12. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

13. Inventories

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventories in the Enterprise Funds consist of Electric, Light and Power and Water System supplies which are stated at cost on a first-in/first-out basis.

14. Accrued Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days up to the equivalent of 10 days of vacation. Employees are not paid for accumulated sick leave.

For governmental funds, the cost of accumulated vacation along with the related payroll taxes expected to be paid in the next 60 days is recorded as a fund liability, and amounts expected to be paid after 60 days are recorded only in the government-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when incurred.

15. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**15. Interfund Transactions - continued**

The Internal Service Funds (Motor Pool, Administrative Services) record charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

16. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	30 - 40 years
Electric, Water and Sewer systems	25 - 50 years
Machinery and equipment	5 - 40 years
Infrastructure - streets and bridges	30 years
Land improvements	20 years
Downtown improvements	20 years

17. Deferred Revenue

Deferred revenue consists of amounts related to special assessments receivable in future periods. None of these amounts are deferred in the government-wide financial statements.

18. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

20. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The City has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH AND CASH EQUIVALENTS

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash and cash equivalents in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2005, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 3,745,377	\$ 3,707,098
Savings	<u>1,268,431</u>	<u>1,242,706</u>
Total Primary Government	5,013,808	4,949,804

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Deposits - continued

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
FIDUCIARY FUNDS		
Checking	\$ -	\$ 27,911
COMPONENT UNIT		
Checking	<u>181,899</u>	<u>183,956</u>
TOTAL REPORTING ENTITY	<u>\$ 5,195,707</u>	<u>\$ 5,161,671</u>

The primary government cash and cash equivalents captions on the basic financial statements included \$940 of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2005, the City accounts were insured by the FDIC for \$610,144 and the amount of \$4,551,527 was uninsured and uncollateralized.

Investments

As of June 30, 2005, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized Pooled Investment			
Govt Op MM Fund	<u>\$ 42,205</u>	<u>\$ 36,186</u>	39 days

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2005, the City's investment in the uncategorized pooled investment was rated Aaa by Moody's.

Interest rate risk

The City has not adopted a policy that indicates how the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The City has not adopted a policy that indicates how the City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUEDCustodial credit risk

The City has not adopted a policy that indicates how the City will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2005:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,540,257	\$ 176,874	\$ 4,717,131
Cash and cash equivalents - restricted	<u>516,696</u>	<u>5,025</u>	<u>521,721</u>
	<u>\$ 5,056,953</u>	<u>\$ 181,899</u>	<u>\$ 5,238,852</u>

NOTE C: POOLING OF CASH AND CASH EQUIVALENTS AND CASH OVERDRAFT

The City utilizes pooled cash accounts for approximately fourteen funds. Cash overdrafts of individual funds as of June 30, 2005, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
City Income Tax Fund	\$(14,478)	\$ 282,651	\$ 268,173

NOTE D: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of June 30, 2005:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Other</u>	<u>Total</u>
Enterprise Funds	\$ 158,630	\$ 184,210	\$ 173,856	\$ 516,696
Component Unit Fund	<u>-</u>	<u>5,025</u>	<u>-</u>	<u>5,025</u>
	<u>\$ 158,630</u>	<u>\$ 189,235</u>	<u>\$ 173,856</u>	<u>\$ 521,721</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2005, are as follows:

Due to General Fund from:	
City Income Tax Fund	\$ 13,378
Local Street Fund	3,828
Water System Fund	<u>113,809</u>
	<u>\$ 131,015</u>
Due to Local Street Fund from:	
City Income Tax Fund	\$ 75,149
Nonmajor governmental funds	<u>14,124</u>
	<u>\$ 89,273</u>
Due to nonmajor governmental funds from:	
City Income Tax Fund	<u>\$ 23,437</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds and business-type funds have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	\$ 19,767
Electric Light and Power System Fund	34,970
Sewage Disposal System Fund	24,000
Water System Fund	<u>24,000</u>
	<u>\$ 102,737</u>
Transfer to City Income Tax Fund from:	
Nonmajor governmental funds	<u>\$ 2,088</u>
Transfer to Local Streets Fund from:	
City Income Tax Fund	<u>\$ 848,900</u>
Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 10,000</u>
Transfer to Water System Fund from:	
City Income Tax Fund	<u>\$ 197,011</u>
Transfer to Sewage Disposal System Fund from:	
City Income Tax Fund	<u>\$ 80,447</u>

City of Portland
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE G: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details primary government advances at June 30, 2005:

	<u>Advance To</u>	<u>Advance From</u>
Primary Government		
General Fund	\$ 48,000	\$ -
Nonmajor governmental funds	2,704	-
Internal service fund	<u>-</u>	<u>50,704</u>
	<u>\$ 50,704</u>	<u>\$ 50,704</u>

The advances were used to finance operations.

NOTE H: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	<u>Balance July 1, 2004</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2005</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,075,920	\$ -	\$ -	\$ 1,075,920
Capital assets, being depreciated				
Buildings and additions	371,721	-	-	371,721
Equipment and furniture	1,444,163	78,310	-	1,522,473
Infrastructure - streets and bridges	<u>7,963,380</u>	<u>895,597</u>	<u>-</u>	<u>8,858,977</u>
Subtotal	9,779,264	973,907	-0-	10,753,171
Less accumulated depreciation for:				
Buildings and additions	(60,440)	(11,441)	-	(71,881)
Equipment and furniture	(654,749)	(142,886)	-	(797,635)
Infrastructure - streets and bridges	<u>(2,261,736)</u>	<u>(277,774)</u>	<u>-</u>	<u>(2,539,510)</u>
Subtotal	<u>(2,976,925)</u>	<u>(432,101)</u>	<u>-0-</u>	<u>(3,409,026)</u>
Net capital assets being depreciated	<u>6,802,339</u>	<u>541,806</u>	<u>-0-</u>	<u>7,344,145</u>
Capital assets, net	<u>\$ 7,878,259</u>	<u>\$ 541,806</u>	<u>\$ -0-</u>	<u>\$ 8,420,065</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 117,855
Public safety	101,853
Public works	137,102
Health and welfare	38,554
Recreation and cultural	34,460
Community & economic development	<u>2,277</u>
Total depreciation expense	<u>\$ 432,101</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE H: CAPITAL ASSETS - CONTINUED**Primary Government - continued**

	Balance July 1, 2004	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2005
Business-type activities				
(Electric Light and Power System)				
Capital assets, not being depreciated				
Land	\$ 13,800	\$ -	\$ -	\$ 13,800
Capital assets, being depreciated				
Buildings	2,119,499	-	-	2,119,499
Transmission and disbursement	4,460,620	126,117	-	4,586,737
Equipment	<u>151,163</u>	<u>17,683</u>	<u>-</u>	<u>168,846</u>
Subtotal	6,731,282	143,800	-0-	6,875,082
Less accumulated depreciation for:				
Buildings	(404,213)	(45,819)	-	(450,032)
Transmission and disbursement	(1,173,908)	(138,320)	-	(1,312,228)
Equipment	<u>(10,780)</u>	<u>(10,000)</u>	<u>-</u>	<u>(20,780)</u>
Subtotal	<u>(1,588,901)</u>	<u>(194,139)</u>	<u>-0-</u>	<u>(1,783,040)</u>
Net capital assets, being depreciated	<u>5,142,381</u>	<u>(50,339)</u>	<u>-0-</u>	<u>5,092,042</u>
Capital assets, net	<u>\$ 5,156,181</u>	<u>\$(50,339)</u>	<u>\$ -0-</u>	<u>\$ 5,105,842</u>
Business-type activities				
(Sewage Disposal System)				
Capital assets, not being depreciated				
Land	\$ 11,003	\$ -	\$ -	\$ 11,003
Construction in progress	<u>-</u>	<u>170,620</u>	<u>-</u>	<u>170,620</u>
Subtotal	11,003	170,620	-0-	181,623
Capital assets, being depreciated				
Buildings	605,399	-	-	605,399
Sewage Disposal System	1,203,633	-	-	1,203,633
Equipment	<u>43,453</u>	<u>-</u>	<u>-</u>	<u>43,453</u>
Subtotal	1,852,485	-0-	-0-	1,852,485
Less accumulated depreciation for:				
Buildings	(463,304)	(15,809)	-	(479,113)
Sewage Disposal System	(353,887)	(40,121)	-	(394,008)
Equipment	<u>(4,948)</u>	<u>(2,842)</u>	<u>-</u>	<u>(7,790)</u>
Subtotal	<u>(822,139)</u>	<u>(58,772)</u>	<u>-0-</u>	<u>(880,911)</u>
Net capital assets, being depreciated	<u>1,030,346</u>	<u>(58,772)</u>	<u>-0-</u>	<u>971,574</u>
Capital assets, net	<u>\$ 1,041,349</u>	<u>\$ 111,848</u>	<u>\$ -0-</u>	<u>\$ 1,153,197</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE H: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	<u>Balance July 1, 2004</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2005</u>
Business-type activities				
(Water System)				
Capital assets, not being depreciated				
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Construction in progress	<u>824,667</u>	<u>861,106</u>	<u>(1,598,182)</u>	<u>87,591</u>
Subtotal	828,167	861,106	(1,598,182)	91,091
Capital assets, being depreciated				
Water System	2,281,995	1,598,182	-	3,880,177
Equipment	<u>41,272</u>	<u>-</u>	<u>-</u>	<u>41,272</u>
Subtotal	2,323,267	1,598,182	-0-	3,921,449
Less accumulated depreciation for:				
Water System	(845,396)	(68,622)	-	(914,018)
Equipment	<u>(16,923)</u>	<u>(2,197)</u>	<u>-</u>	<u>(19,120)</u>
Subtotal	<u>(862,319)</u>	<u>(70,819)</u>	<u>-0-</u>	<u>(933,138)</u>
Net capital assets, being depreciated	<u>1,460,948</u>	<u>1,527,363</u>	<u>-0-</u>	<u>2,988,311</u>
Capital assets, net	<u>\$ 2,289,115</u>	<u>\$ 2,388,469</u>	<u>\$(1,598,182)</u>	<u>\$ 3,079,402</u>
Component Unit				
(DDA)				
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 335,965	\$ -	\$ 335,965
Capital assets, being depreciated				
Downtown improvements	155,316	-	-	155,316
City Hall building	<u>2,601,000</u>	<u>-</u>	<u>-</u>	<u>2,601,000</u>
Subtotal	2,756,316	-0-	-0-	2,756,316
Less accumulated depreciation for:				
Downtown improvements	(6,136)	(7,765)	-	(13,901)
City Hall building	<u>(130,050)</u>	<u>(130,050)</u>	<u>-</u>	<u>(260,100)</u>
Subtotal	<u>(136,186)</u>	<u>(137,815)</u>	<u>-0-</u>	<u>(274,001)</u>
Net capital assets being depreciated	<u>2,620,130</u>	<u>(137,815)</u>	<u>-0-</u>	<u>2,482,315</u>
Capital assets, net	<u>\$ 2,620,130</u>	<u>\$(198,150)</u>	<u>\$ -0-</u>	<u>\$ 2,818,280</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE I: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2005.

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
Special Assessment Limited					
Tax Bonds Payable	\$ 70,000	\$ -	\$ 5,000	\$ 65,000	\$ 5,000
Capital Leases Payable	40,580	-	15,751	24,829	16,029
Notes Payable	93,048	-	43,436	49,612	32,636
Accumulated Compensated Absences	48,052	10,968	-	59,020	11,804
	251,680	10,968	64,187	198,461	65,469
Business-type activities					
Electric Light and Power System					
1993 Revenue Bonds	105,000	-	105,000	-0-	-
1994 Revenue Bonds	510,000	-	10,000	500,000	100,000
2002 Note Payable	155,000	-	60,000	95,000	60,000
Sewage Disposal System					
1995 Revenue Bonds	220,000	-	15,000	205,000	15,000
Water System					
2004 Water System Bonds	674,422	670,450	-	1,344,872	-
	1,664,422	670,450	190,000	2,144,872	175,000
TOTAL PRIMARY GOVERNMENT	1,916,102	681,418	254,187	2,343,333	240,469
COMPONENT UNIT FUND					
Downtown Development Authority					
General Obligation Bonds	1,990,000	-	95,000	1,895,000	125,000
	<u>\$ 3,906,102</u>	<u>\$ 618,418</u>	<u>\$ 349,187</u>	<u>\$ 4,238,333</u>	<u>\$ 365,469</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Special Assessment Limited Tax Bonds Payable (payable from Debt Service Fund)

The City issued Special Assessment Limited Tax Bonds for purposes of defraying the cost of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on these bonds are to be paid out of special assessments to be made against the benefited properties. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding this bond issue.

\$120,000 Special Assessment Limited Tax Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$5,000 to \$15,000 through December 1, 2014, with interest ranging from 5.60 to 6.25 percent, payable semi-annually.

\$ 65,000

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE I: LONG-TERM DEBT - CONTINUEDCapital Leases (payable from General Fund)

The City has entered into a lease purchase agreement to finance the acquisition of a mailer machine. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$7,276. The lease is due in monthly installments of \$178, including interest at 16.3 percent, through October 29, 2006.

\$ 2,546

The City has entered into a lease purchase agreement to finance the acquisition of audio/visual equipment. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$119,927, \$60,000 of which was financed. The lease is due in monthly installments of \$1,181, including interest at 6.75 percent, through April 25, 2007.

22,283\$ 24,829Notes Payable (payable from Internal Service Fund)

\$200,000 Note payable, dated September 15, 1999, due in semi-annual installments of \$17,495 through September 15, 2006, including interest at 5.57 percent for a fire truck costing \$208,159, issued in accordance with Public Act 99 of 1933.

\$ 49,612Electric Light and Power System Revenue Bonds

The City issued Electric Revenue Bonds for purposes of financing improvements and acquisition and installation of equipment related to the Electric Light and Power System. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the utility system.

The following summarizes the significant details regarding this bond issues:

\$600,000 Electric Revenue Bonds Series 1994 dated December 1, 1994, due in annual installments of \$100,000 through August 1, 2009, with interest ranging from 6.60 to 7.00 percent, payable semi-annually.

\$ 500,000Electric Light and Power System Note Payable Agreement

\$300,000 Note Payable, dated February 22, 2002, due in monthly installments of \$5,000 through February 2007, with no interest due.

\$ 95,000Sewage Disposal System Revenue Bonds

The City issued Wastewater Revenue Bonds for purposes of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the sewage disposal system.

The following summarizes the significant details regarding this bond issue:

\$300,000 Wastewater Revenue Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$15,000 to \$30,000 through December 1, 2014, with interest ranging from 5.7 to 6.35 percent, payable semi-annually.

\$ 205,000

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE I: LONG-TERM DEBT - CONTINUEDWater System Bonds

\$1,450,000 Water System Bonds dated September 15, 2003, maturity of which is not yet known. The project was completed in the year ended June 30, 2005 but the City has not yet been provided with a final maturity schedule. Interest on the outstanding balance of 2.5 percent is payable semi-annually. Due to the unknown maturity schedule, it is not possible to anticipate the amount of principal and interest that will be due each year.

\$ 1,344,872

COMPONENT UNIT - DISCRETELY PRESENTED

General Obligation Bonds

The City of Portland Downtown Development Authority (a component unit) issued Limited Tax General Obligation Downtown Development Bonds for purposes of financing construction and improvements outlined in the Downtown Development and Financing Plan along with the construction of a new City Hall. The principal and interest requirements on these bonds are to be paid from the portion of property tax levies related to the Downtown Development Authority districts. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding these bond issues:

\$275,000 Limited Tax General Obligation Downtown Development Bond dated October 1, 1994, due in annual installments ranging from \$25,000 to \$30,000 through June 1, 2008, with interest ranging from 6.2 to 6.40 percent, payable semi-annually.

\$ 85,000

\$995,000 Limited Tax General Obligation Downtown Development Bond dated June 1, 2001, due in annual installments ranging from \$50,000 to \$125,000 through October 1, 2016, with interest ranging from 4.10 to 5.00 percent, payable semi-annually.

925,000

\$1,005,000 Limited Tax General Obligation Downtown Development Bonds dated August 22, 2001, due in annual installments ranging from \$50,000 to \$100,000 through October 1, 2016, with interest of 4.75 percent, payable semi-annually.

885,000\$ 1,895,000Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$107,961 at June 30, 2005. Of this amount, \$9,132, \$1,387, \$35,035, and \$3,387 are shown as accrued liabilities within the General, Special Revenue, Enterprise, and Internal Service Funds, respectively, in accordance with criteria disclosed in Note A.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE I: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Notes are as follows:

Primary Government

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Special Assessment Limited Tax Bonds</u>		<u>Notes Payable</u>		<u>Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 115,000	\$ 42,860	\$ 5,000	\$ 3,758	\$ 92,636	\$ 2,353	\$ 16,029	\$ 1,530
2007	115,000	35,348	5,000	3,480	51,976	484	8,800	381
2008	115,000	27,720	5,000	3,198	-	-	-	-
2009	120,000	19,828	5,000	2,910	-	-	-	-
2010	120,000	11,668	5,000	2,618	-	-	-	-
2011-2015	120,000	20,563	40,000	7,766	-	-	-	-
2016-2018	-	-	-	-	-	-	-	-
	<u>\$ 705,000</u>	<u>\$ 157,987</u>	<u>\$ 65,000</u>	<u>\$ 23,730</u>	<u>\$ 144,612</u>	<u>\$ 2,837</u>	<u>\$ 24,829</u>	<u>\$ 1,911</u>

Component Unit

Year Ending June 30,	<u>General Obligation Downtown Development Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 125,000	\$ 88,410
2007	130,000	82,210
2008	135,000	75,752
2009	110,000	68,976
2010	145,000	63,163
2011-2015	805,000	209,134
2016-2018	<u>445,000</u>	<u>21,881</u>
	<u>\$1,895,000</u>	<u>\$ 609,526</u>

NOTE J: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE J: RETIREMENT PLAN - CONTINUED**Annual Pension Cost**

For year ended June 30, 2005, the City's annual pension cost of \$248,762 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial value of assets	\$ 5,676,108	\$ 5,899,108	\$ 6,105,726
Actuarial accrued liability (AAL) (entry age)	7,600,670	7,808,293	8,159,192
Unfunded AAL	1,924,562	1,909,185	2,053,466
Funded ratio	75 %	76 %	75 %
Covered payroll	1,427,476	1,529,881	1,523,592
UAAL as a percentage of covered payroll	135 %	125 %	135 %

	Year Ended June 30,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 211,174	\$ 220,277	\$ 248,762
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE K: DEFERRED COMPENSATION PLAN

The City of Portland offers its employees a deferred compensation plan sponsored by the ICMA Retirement Corporation, which is a compensation plan created in accordance with IRC Section #457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The City's deferred compensation program is administered by the ICMA Retirement Corporation.

Legislative change has been made to 457 plans which mandates that by no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, or annuity contract for the benefit of participants and their beneficiaries.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE K: DEFERRED COMPENSATION PLAN - CONTINUED

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employers creditors nor can they be used by the public employer for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. The ICMA Retirement Corporation elected to implement compliance with the new requirement effective January 1, 1998. The plan assets previously maintained in an Agency Fund are no longer reported by the City because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

NOTE L: CODE ENFORCEMENT FINANCIAL INFORMATION

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2005:

REVENUES	
Licenses and permits	
Permits	\$ 3,487
EXPENDITURES	
Salaries and wages	62,164
Fringe benefits	21,283
Contractual services	13,676
Supplies	1,093
Printing	1,420
Vehicle rental	58
Capital outlay	2,192
Other	<u>199</u>
TOTAL EXPENDITURES	<u>102,085</u>
EXCESS OF REVENUES	
(UNDER) EXPENDITURES	<u><u>\$ (98,598)</u></u>

NOTE M: RISK MANAGEMENT

The City carries commercial insurance for the risk of loss due to workers' compensation claims.

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE N: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the City has set aside for specific purposes.

The following are the various fund balance and net asset reserves as of June 30, 2005:

Fund Balances

Primary Government

Nonmajor governmental funds

Reserved for debt service	\$ 27,596
Reserved for Streets - Right of Way	11,118
Reserved for perpetual care	127,994

Local Street Fund

Reserved for Streets - Right of Way	<u>17,389</u>
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Total primary government	<u>\$ 184,097</u>
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Component Unit Funds

Downtown Development Authority

Reserved for debt service	<u>\$ 5,025</u>
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The amount of \$5,025 represents the reserved amount of fund balance that the Authority has set aside for debt service in accordance with the requirements of bond resolutions.

Net Assets

Enterprise Funds

Electric Light and Power System

Utility reserve	<u>\$ 70,000</u>
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Section 12.9 of the City Charter created an electric utility reserve fund for the purpose of accumulating and holding such money which, in addition to insurance carried by the City, may be deemed by the Board of Light and Power to be prudently necessary for the protection, improvement, replacement, and extension of the City electric public utility plants and facilities.

Monies expended from the utility reserve fund must be replaced from the revenues of the City electric utility, and the amount in the fund must total the sum required by the charter (i.e., 10% of the undepreciated original cost of the electric utility of the City) before any electric utility revenues can be appropriated for other capital expenditures of the City.

The following is the fund balance designation as of June 30, 2005:

General Fund

Designated for capital projects	<u>\$ 150,000</u>
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City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE O: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2005:

PRIMARY GOVERNMENT

Governmental Activities

Debt Service	\$ 26,447
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Capital improvement

MDEQ Wellhead Protection Grant	\$ 4,193
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Other Purposes

City Income Tax	\$ 293,244
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Major Street	219,704
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Local Street	147,359
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Downtown Rehabilitation	26,710
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Cemetery Perpetual Care	<u>127,994</u>
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	<u>\$ 815,011</u>
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Business-type Activities

Restricted for utilities

Sewer System	<u>\$ 70,000</u>
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Restricted for debt service

Electric Light and Power	\$ 127,838
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Sewer System	<u>41,156</u>
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	<u>\$ 168,994</u>
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NOTE P: PRIOR PERIOD ADJUSTMENT

The following prior period adjustment was made during the year, which was the result of correction of an accounting error. This adjustment was reported as a change to beginning fund balance. The effect on operations and other affected balances for the current and prior year are as follows:

	<u>2005</u>	June 30, <u>2004</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Nonmajor governmental funds			
Cash	\$ -	\$ 61,462	To correct understated
Revenues over (under) expenditures	-	61,462	cash
Fund balance - beginning	61,462	-	

NOTE Q: POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2005, those costs totaled \$19,762.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE Q: POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

NOTE R: RELIANCE ON FUNDING SOURCESDowntown Development Authority (Component Unit)

As a result of constitutional and statutory amendments related to school financing, the City of Portland Downtown Development Authority (Component Unit) is not able to capture as much tax increment revenue related to school property taxes as in the past. Also, the amount of school property taxes available to be captured has dramatically decreased.

The amount that can now be captured depends on whether the Authority has met certain criteria. The City of Portland Downtown Development Authority appears to have met the required criteria which will allow the Authority to capture school property taxes in an amount up to either the annual debt service requirements for both DDA general obligation debt issues or the non-school property taxes captured, whichever is less.

NOTE S: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2005, the City incurred expenditures in the General Fund and City Income Tax Fund in excess of the amount appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Community and economic development			
Economic development	\$ 18,800	\$ 18,917	\$ 117
City Income Tax Fund	1,180,578	1,240,607	60,029

REQUIRED SUPPLEMENTARY INFORMATION

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 868,500	\$ 868,500	\$ 874,556	\$ 6,056
Penalties and interest	1,750	1,750	2,616	866
Total taxes	870,250	870,250	877,172	6,922
Licenses and permits				
Cable television license	20,000	20,000	17,919	(2,081)
City licenses and permits	6,800	6,800	3,487	(3,313)
Total licenses and permits	26,800	26,800	21,406	(5,394)
Intergovernmental				
State				
Sales tax	474,000	474,000	456,521	(17,479)
Act 302 training funds	1,200	1,200	1,335	135
State liquor license	2,500	2,500	2,771	271
Total intergovernmental	477,700	477,700	460,627	(17,073)
Charges for services				
Fire protection - townships	122,700	122,700	113,809	(8,891)
Tax collection	33,500	33,500	35,506	2,006
Cemetery fees and lot sales	20,000	20,000	26,654	6,654
Administrative charges	276,510	276,510	276,576	66
Other fees	1,550	1,550	4,596	3,046
Total charges for services	454,260	454,260	457,141	2,881
Fines and forfeits				
Parking	2,000	2,000	699	(1,301)
District court	14,000	14,000	14,420	420
Other	2,500	2,500	3,186	686
Total fines and forfeits	18,500	18,500	18,305	(195)
Interest and rents	6,050	6,050	34,095	28,045
Other				
Donations	6,100	6,100	7,786	1,686
Reimbursements	100,410	100,410	105,225	4,815
Total other	106,510	106,510	113,011	6,501
TOTAL REVENUES	1,960,070	1,960,070	1,981,757	21,687

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
Council, boards, and commissions	\$ 8,815	\$ 12,445	\$ 9,440	\$ 3,005
Community promotions	135,707	135,707	67,782	67,925
City manager	106,955	121,905	108,863	13,042
Assessing services	49,270	55,849	50,426	5,423
Elections	12,125	12,125	7,453	4,672
City hall and grounds	59,450	59,450	53,759	5,691
General administrative	364,410	367,160	306,044	61,116
Cemetery operations	127,877	136,277	101,893	34,384
Total general government	864,609	900,918	705,660	195,258
Public safety				
Police department	598,745	620,645	567,657	52,988
Fire department	211,925	211,925	176,321	35,604
Code enforcement	82,735	120,060	102,085	17,975
Total public safety	893,405	952,630	846,063	106,567
Public works				
Street lighting	44,250	44,250	38,341	5,909
Health and welfare				
Ambulance service	95,637	109,910	106,984	2,926
Community and economic development				
Economic development	15,000	18,800	18,917	(117)
Recreation and cultural				
Parks department	177,247	185,387	152,869	32,518
Debt service				
Principal	15,751	15,751	15,751	-0-
Interest	557	557	557	-0-
Total debt service	16,308	16,308	16,308	-0-
TOTAL EXPENDITURES	2,106,456	2,228,203	1,885,142	343,061
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(146,386)	(268,133)	96,615	364,748

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES)				
Transfers in				
Electric Light and Power System Fund	\$ 34,970	\$ 34,970	\$ 34,970	\$ -0-
Sewage Disposal System Fund	24,000	24,000	24,000	-0-
Water System Fund	24,000	24,000	24,000	-0-
DNR Grant Fund	-	19,767	19,767	-0-
Transfers out				
Administrative Services Fund	-	(3,936)	-	3,936
Recreation Fund	(10,000)	(10,000)	(10,000)	-0-
 TOTAL OTHER FINANCING SOURCES (USES)	 72,970	 88,801	 92,737	 3,936
 EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	 (73,416)	 (179,332)	 189,352	 368,684
 Fund balance, beginning of year	 276,587	 276,587	 276,587	 -0-
 Fund balance, end of year	 <u>\$ 203,171</u>	 <u>\$ 97,255</u>	 <u>\$ 465,939</u>	 <u>\$ 368,684</u>

City of Portland

City Income Tax Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 685,000	\$ 685,000	\$ 677,280	\$ (7,720)
Fines and forfeits	15,000	15,000	7,323	(7,677)
Interest	3,500	3,500	6,746	3,246
Other				
Special assessments	8,368	8,368	10,197	1,829
Other	-	-	10,925	10,925
TOTAL REVENUES	711,868	711,868	712,471	603
EXPENDITURES				
General government	137,990	137,990	114,249	23,741
EXCESS OF REVENUES OVER EXPENDITURES	573,878	573,878	598,222	24,344
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	2,088	2,088
Transfers out	(444,750)	(1,042,588)	(1,126,358)	(83,770)
TOTAL OTHER FINANCING SOURCES (USES)	(444,750)	(1,042,588)	(1,124,270)	(81,682)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	129,128	(468,710)	(526,048)	(57,338)
Fund balance, beginning of year	819,292	819,292	819,292	-0-
Fund balance, end of year	\$ 948,420	\$ 350,582	\$ 293,244	\$ (57,338)

City of Portland

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 67,650	\$ 67,650	\$ 68,313	\$ 663
Intergovernmental - State				
Gas and weight tax	66,000	66,000	77,260	11,260
METRO Act	-	-	8,206	8,206
Interest	1,100	1,100	477	(623)
Other	-	-	2,104	2,104
TOTAL REVENUES	134,750	134,750	156,360	21,610
EXPENDITURES				
Public works				
Administrative	45,415	45,415	48,019	(2,604)
Construction	421,000	996,571	784,026	212,545
Maintenance	147,626	147,626	105,558	42,068
TOTAL EXPENDITURES	614,041	1,189,612	937,603	252,009
EXCESS OF REVENUES (UNDER) EXPENDITURES	(479,291)	(1,054,862)	(781,243)	273,619
OTHER FINANCING SOURCES				
Transfers in	421,000	822,792	848,900	26,108
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(58,291)	(232,070)	67,657	299,727
Fund balance, beginning of year	79,702	79,702	79,702	-0-
Fund balance, end of year	\$ 21,411	\$ (152,368)	\$ 147,359	\$ 299,727

OTHER SUPPLEMENTARY INFORMATION

City of Portland
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2005

	Special Revenue Funds			
	Major Street	Recreation	Portland Area Ambulance	Downtown Rehabilitation
ASSETS				
Cash and cash equivalents	\$ 188,813	\$ 37,305	\$ 46,024	\$ 26,710
Accounts receivable	-	-	7,398	-
Due from other governmental units	38,202	-	-	-
Special assessments receivable	-	-	-	-
Due from other funds	-	-	-	-
TOTAL ASSETS	\$ 227,015	\$ 37,305	\$ 53,422	\$ 26,710
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 3,916	\$ 7,462	\$ 19,769	\$ -
Accrued liabilities	3,395	2,702	8,688	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Advances from other funds	-	-	2,704	-
TOTAL LIABILITIES	7,311	10,164	31,161	-0-
FUND BALANCES				
Reserved for				
Streets - Right of Way	11,118	-	-	-
Perpetual care	-	-	-	-
Debt service	-	-	-	-
Unreserved - undesignated	208,586	27,141	22,261	26,710
TOTAL FUND BALANCES	219,704	27,141	22,261	26,710
TOTAL LIABILITIES AND FUND BALANCES	\$ 227,015	\$ 37,305	\$ 53,422	\$ 26,710

Debt Service Fund	Capital Project Funds			Permanent Fund	Total Nonmajor Governmental Funds
Special Assessments	Capital Improvement	DNR Grant	MDEQ Wellhead Protection Grant	Cemetery Perpetual Care	
\$ 18,408	\$ -	\$ -	\$ 4,193	\$ 127,994	\$ 449,447
-	-	-	-	-	7,398
-	-	-	-	-	38,202
18,552	-	-	-	-	18,552
23,437	-	-	-	-	23,437
<u>\$ 60,397</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,193</u>	<u>\$ 127,994</u>	<u>\$ 537,036</u>
\$ 125	\$ -	\$ -	\$ -	\$ -	\$ 31,272
-	-	-	-	-	14,785
18,552	-	-	-	-	18,552
14,124	-	-	-	-	14,124
-	-	-	-	-	2,704
32,801	-0-	-0-	-0-	-0-	81,437
-	-	-	-	-	11,118
-	-	-	-	127,994	127,994
27,596	-	-	-	-	27,596
-	-	-	4,193	-	288,891
27,596	-0-	-0-	4,193	127,994	455,599
<u>\$ 60,397</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,193</u>	<u>\$ 127,994</u>	<u>\$ 537,036</u>

City of Portland

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended June 30, 2005

	Special Revenue Funds			
	Major Street	Recreation	Portland Area Ambulance	Downtown Rehabilitation
REVENUES				
Intergovernmental	\$ 238,928	\$ 4,750	\$ 6,300	\$ -
Charges for services	-	93,583	305,751	218,878
Interest and rents	1,953	-	-	-
Other	2,306	12,178	1,576	-
TOTAL REVENUES	243,187	110,511	313,627	218,878
EXPENDITURES				
General government	-	-	-	-
Public works	201,262	-	-	-
Health and welfare	-	-	320,299	-
Community and economic development	-	-	-	253,630
Recreation and cultural	-	133,675	-	-
Debt service	-	-	-	-
TOTAL EXPENDITURES	201,262	133,675	320,299	253,630
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	41,925	(23,164)	(6,672)	(34,752)
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Transfers in	-	10,000	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	10,000	-0-	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	41,925	(13,164)	(6,672)	(34,752)
Fund balances, beginning of year	177,779	40,305	28,933	-
Prior period adjustment	-	-	-	61,462
Fund balances, end of year	\$ 219,704	\$ 27,141	\$ 22,261	\$ 26,710

Debt Service Fund	Capital Project Funds			Permanent Fund	Total Nonmajor Governmental Funds
Special Assessments	Capital Improvement	DNR Grant	MDEQ Wellhead Protection Grant	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 249,978
-	-	-	-	-	618,212
1,584	-	-	-	-	3,537
1,772	-	-	-	4,952	22,784
3,356	-0-	-0-	-0-	4,952	894,511
-	-	1,064	320	-	1,384
-	-	-	-	-	201,262
-	-	-	-	-	320,299
-	-	-	-	-	253,630
-	-	-	-	-	133,675
9,780	-	-	-	-	9,780
9,780	-0-	1,064	320	-0-	920,030
(6,424)	-	(1,064)	(320)	4,952	(25,519)
-	(2,088)	(19,767)	-	-	(21,855)
-	-	-	-	-	10,000
-0-	(2,088)	(19,767)	-0-	-0-	(11,855)
(6,424)	(2,088)	(20,831)	(320)	4,952	(37,374)
34,020	2,088	20,831	4,513	123,042	431,511
-	-	-	-	-	61,462
\$ 27,596	\$ -0-	\$ -0-	\$ 4,193	\$ 127,994	\$ 455,599

City of Portland

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2005

ASSETS

Cash	\$ 176,874
Cash - restricted	<u>5,025</u>
TOTAL ASSETS	<u>\$ 181,899</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 525
Due to other governmental units	<u>15,000</u>
TOTAL LIABILITIES	15,525

FUND BALANCE

Reserved for debt service	5,025
Unreserved - undesignated	<u>161,349</u>
TOTAL FUND BALANCE	<u>166,374</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 181,899</u>
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City of Portland

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2005

Total fund balance - governmental fund \$ 166,374

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 3,092,281	
Accumulated depreciation is	<u>(274,001)</u>	
Capital assets, net		2,818,280

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Accrued interest payable	21,819	
General obligation bonds	<u>1,895,000</u>	
		<u>(1,916,819)</u>

Net assets of governmental activities \$ 1,067,835

City of Portland

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2005

REVENUES	
Taxes	\$ 247,164
Interest	1,956
Other	<u>18,508</u>
TOTAL REVENUES	267,628
EXPENDITURES	
Current	
Community and economic development	71,510
Capital outlay	
Contracted services	107,164
Decorations and banners	8,252
Debt service	
Principal	95,000
Interest and fiscal charges	<u>95,141</u>
TOTAL EXPENDITURES	<u>377,067</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(109,439)
Fund balance, beginning of year	<u>275,813</u>
Fund balance, end of year	<u><u>\$ 166,374</u></u>

City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2005

Net change in fund balance - governmental fund **\$ (109,439)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	335,965	
Depreciation expense	<u>(137,815)</u>	
Excess of capital outlay over depreciation expense		198,150

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements	95,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>1,036</u>
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Change in net assets of governmental activities	<u><u>\$ 184,747</u></u>
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Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portland, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Portland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Portland's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable condition:

2005-1 BANK ACCOUNTS NOT RECORDED

Condition: During the course of our audit, we noted five (5) bank accounts that were not recorded in the City's general ledger. Four (4) of these accounts are not in the custody of the City Treasurer and are known as the firefighter "Volunteer Fund". The other account is a drug forfeiture account that was not recorded in the general ledger but is in the custody of the City Treasurer. The accounts all utilize the City's tax identification number. The Volunteer Fund is held in the name of the Portland Fire Department. Additionally, City Council has not adopted formal policies to clarify the allowable uses of these funds. The balances in these accounts were not considered to be material to the financial statements.

Criteria: The recording of all cash accounts is necessary to demonstrate stewardship over all of the activities that have been entrusted to the City.

Effect: The City has failed to maintain control over all of the bank accounts being used in the City's name. As a result, the City has not maintained adequate internal control over cash activities.

Recommendation: We recommend that the City take steps to ensure that all bank accounts are properly identified and recorded in the City's general ledger.

2005-1 BANK ACCOUNTS NOT RECORDED - CONTINUED

Corrective Action Response: Management of the City is currently reviewing procedures related to identification of all bank accounts and will implement necessary changes in order to comply with the cited requirements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness. Additionally, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Portland in a separate letter dated August 26, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and City Council of the City of Portland, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2005

**City of Portland
Ionia County, Michigan**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2005

City of Portland

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REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

Compliance

We have audited the compliance of the City of Portland, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2005. The City of Portland's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the City of Portland's management. Our responsibility is to express an opinion on the City of Portland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City of Portland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Portland's compliance with those requirements.

In our opinion, the City of Portland complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the City of Portland is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to Federal programs. In planning and performing our audit, we considered the City of Portland's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Portland, Michigan, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management and the City Council of the City of Portland, the Federal awarding agencies and pass-through entities is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2005

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Current Year</u>	
				<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE Direct programs					
Community Facilities Loans and Grants ^(b)	10.766	26-034-0386007243	\$ 1,005,000	\$ 885,000	\$ 885,000
FEDERAL HIGHWAY ADMINISTRATION Passed through Michigan Department of Transportation					
Special Trunkline Construction by Local Agency ^(a)	20.205	02-5373	823,500	39,588	39,588
U.S. ENVIRONMENTAL PROTECTION AGENCY Passed through Michigan Department of Environmental Quality					
Drinking Water State Revolving Funds ^(a)	66.468	7117-01	1,035,922	462,275	462,275
U.S. DEPARTMENT OF HOMELAND SECURITY Passed through Michigan State Police					
Hazard Mitigation Grant	97.039	FEMA-1346-DR-MI	278,200	22,362	22,362
			<u>\$ 3,142,622</u>	<u>\$ 1,409,225</u>	<u>\$ 1,409,225</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2005

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Portland and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (b) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following percentages of Federal participation:

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
Special Trunkline Construction by Local Agency	20.205	90
Drinking Water State Revolving Funds	66.468	69

- (b) Denotes program tested as "major program".

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2005, basic financial statements to the expenditures of the City administered Federal programs reported on the Schedule of Expenditures of Federal Awards.

	<u>Federal/ State Revenue</u>	<u>Less: State Revenue</u>	<u>Other Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
Sewer System Fund	\$ 21,994	\$(2,200)	\$ -	\$ 19,794
Electric Light and Power Fund	22,362	-	-	22,362
Water System Fund	74,419	(2,200)	426,275 ⁽¹⁾	498,417
COMPONENT UNIT FUND				
Community Facilities Loan Balance	<u>-</u>	<u>-</u>	<u>885,000 ⁽²⁾</u>	<u>885,000</u>
	<u>\$ 118,775</u>	<u>\$(4,400)</u>	<u>\$ 1,363,553</u>	<u>\$ 1,409,225</u>

⁽¹⁾ Represents Federal revenue reported in the basic financial statements as bonds payable.

⁽²⁾ Represents outstanding loan balance on Community Facilities Loan, required to be reported as Federal revenue per U.S. Department of Agriculture.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portland, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Portland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Portland's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not consider the reportable condition described above to be a material weakness. Additionally, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Portland in a separate letter dated August 26, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the City Council of the City of Portland, the Federal awarding agencies and pass-through entities is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2005

City of Portland

SCHEDULE OF FINDINGS

Year Ended June 30, 2005

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were three (3) reportable conditions disclosed by the audit of the basic financial statements, as discussed below. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material affect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings regarding internal controls or compliance related to the major programs tested.

The major program tested to cover 50 percent of the total Federal expenditures was the Community Facilities Loans and Grants (CFDA 10.766). Total Federal expenditures for the year ended June 30, 2005, for the major program was \$885,000, which is approximately 63 percent of total Federal expenditures. It was determined that the City did not qualify as a low-risk auditee.

The City had two (2) Type A programs, the Community Facilities Loans and Grants (CFDA 10.766) and Drinking Water State Revolving Funds (CFDA 66.468). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

2005-1 BANK ACCOUNTS NOT RECORDED

Condition: During the course of our audit, we noted five (5) bank accounts that were not recorded in the City's general ledger. Four (4) of these accounts are not in the custody of the City Treasurer and are known as the firefighter "Volunteer Fund". The other account is a drug forfeiture account that was not recorded in the general ledger but is in the custody of the City Treasurer. The accounts all utilize the City's tax identification number. The Volunteer Fund is held in the name of the Portland Fire Department. Additionally, City Council has not adopted formal policies to clarify the allowable uses of these funds. The balances in these accounts were not considered to be material to the financial statements.

Criteria: The recording of all cash accounts is necessary to demonstrate stewardship over all of the activities that have been entrusted to the City.

Effect: The City has failed to maintain control over all of the bank accounts being used in the City's name. As a result, the City has not maintained adequate internal control over cash activities.

Recommendation: We recommend that the City take steps to ensure that all bank accounts are properly identified and recorded in the City's general ledger.

Corrective Action Response: Management of the City is currently reviewing procedures related to identification of all bank accounts and will implement necessary changes in order to comply with the cited requirements.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

City of Portland

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2005

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

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MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

As you know, we have recently completed our audit of the records of the City of Portland, Michigan as of and for the year ended June 30, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control and our discussions with management.

1. The City should research past capital projects for inclusion in capital asset records.

During the implementation of Governmental Accounting Standards Board Statement 34 (GASB 34) in the prior year, the City Treasurer undertook a large re-evaluation of the City's capital assets records which resulted in improved listings of those assets and related depreciation, as required by GASB 34. Because of the significant investment the City has made over the years in various improvement projects, it was decided that certain past infrastructure assets would be included in the financial statements for the first time even though GASB 34 does not require them to be included for a city of Portland's size.

We are aware, however, of other projects that have not been included in the City's financial statements such as the river trail and waterfront improvements. There are possibly other large projects that have not been included as well. These would be mostly grant funded projects as opposed to those funded by City income tax funds or enterprise funds, which are all currently included in the financial statements. This issue was noted and reported in our audit comments in the prior year.

We suggest that the City research past capital projects for inclusion in capital asset records. If this is done, the statements will better reflect the significant capital investments that have been made in the City.

2. The City should analyze balance sheet accounts and adjust to actual each year before the audit.

During our audit we proposed approximately sixty (60) adjustments to the general ledger in the areas of cash, investments, accounts receivable, inventory, capital assets, accounts payable, debt, and fund equity. While we anticipate a certain number of audit entries during a typical engagement, stricter independence standards have been imposed in recent years, limiting our involvement related to proposed adjustments. While we do not believe that our independence has been impaired, the City should be aware that this is an issue.

Additionally, calculating and recording such a large number of adjustments during the audit significantly lengthens the time required to complete the audit resulting in additional cost to the City. The true financial condition of the City is not known until after the audit.

We suggest that the City analyze balance sheet accounts and make the required adjustments to ensure the accuracy of balance sheet accounts. Management should evaluate monthly reconciliation procedures in order to minimize audit adjustments.

3. The City should prepare listings of capital asset additions and deletions each year.

The City annually has several ongoing construction and improvement projects that must be included as capital assets in the financial statements. During our audit it was noted that the City had not gathered a comprehensive listing of capital asset names, cost, estimated useful lives, and purchase dates and determined that all additions were identified. We attempted to assist in compiling such a listing for the audit, but having this task performed by an outside party runs the risk that capital assets that the City has purchased are not appropriately reported as capital assets in the financial statements.

We suggest that the City prepare a listing of capital asset additions and deletions, including asset names, cost, useful lives, and purchase dates each year. Preparation of such a listing will help ensure that all assets that have been purchased are appropriately recorded in the City's financial statements.

4. The City should review and revise Special Revenue Fund budgets as necessary.

During the course of our audit, we noted that the Local Street Fund had budgeted a fund deficit at June 30, 2005 of \$152,368. Through discussions with management, we determined that this was caused by budget amendments being adopted for expenditures without adopting corresponding budget amendments for revenues. Similar comments have been noted and reported in our audit comments in prior years.

We suggest the City monitor Special Revenue Fund budgets and amend the budgets as necessary throughout the year.

5. The City Council should amend the City's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the City has not amended their investment policy to addresses the reporting requirements of GASB Statement No. 40. Deposit and investment resources often represent significant assets of the City's funds. These resources are necessary for the delivery of the City's services and programs, or to carry out its fiduciary responsibilities. Effective for the year ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the City's ability to provide services and meet its obligations as they become due.

We suggest the City Council review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the City's financial statements by GASB Statement No. 40.

6. The City should reconcile the DDA bank account to the general ledger.

During the course of our audit, it was noted that the City had not reconciled the DDA bank account to the general ledger. The City provided a bank statement and a listing of outstanding checks for the audit. In reconciling this information to the general ledger we noted a deposit that cleared the bank June 8, 2005, had not been recorded in the general ledger. Reconciliation of all bank accounts in a timely manner is one of the most important procedures for maintaining a sound internal control structure over all cash activities. The failure to reconcile cash also results in the inability to monitor cash flows to assure adequate funds are on hand to meet cash needs.

We suggest the City assure all bank reconciliations be performed and approved by the appropriate individuals on a timely basis and any adjustments to the general ledger or at the bank be handled immediately. This process will not only assure accurate cash balances but will be useful for the City to monitor cash flow.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the financial statements dated August 26, 2005.

This report is intended solely for the information of management, the Mayor, and members of the City Council of the City of Portland and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 26, 2005